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OCI No. 0463/76
January 29, 1976

MEMORANDUM

SUBJECT: The Situation in Egypt

The second Sinai agreement seems to have buttressed President Sadat's domestic position, at least for the short term. But it has not resolved Egypt's basic problems, and Sadat could face increasing discontent from a military establishment dissatisfied with its own diminished capabilities, from intellectuals dissatisfied with Egypt's lessened stature in the Arab world, and from a populace dissatisfied with day-to-day economic problems that never seem to end despite repeated government promises of a respite. 25X1

Egyptians had been growing restive over the continuing no war/no peace situation and most are pleased that demonstrable progress has been made toward a return of more Egyptian territory. They anticipate that a respite from preparations for war will give the government time to concentrate on revitalizing the economy and will encourage foreign investment. They also rally around Sadat precisely because so many other Arabs are so vehemently criticizing him. Indeed, this outside criticism is in many ways Sadat's strongest domestic prop at the moment. Egyptians think of themselves as a cut above the other Arabs and believe they have done more for the Arab cause than the others. They do not like being told how to run their affairs by their Arab brethren, and they deeply resent that they or their president should be labeled traitors.

25X1 There are nonetheless dangers for Sadat inherent in the very things that now work to his advantage. The initial Egyptian satisfaction with the Sinai agreement is already

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wearing off simply with the passage of time, and it is likely that satisfaction will turn to impatience when the Egyptians see that Sadat does not intend to press for an early return to serious negotiations. Sadat has all but stated outright that he expects no real progress until after the US presidential election, but it seems a near certainty that the Egyptian people will not be as patient as Sadat is himself about the pace of negotiations.

If the next few years do not bring either more negotiated territorial returns or war, discontent could become a major problem within the military. Senior military officers recognize that Egypt probably could not have succeeded in taking by force the territory it has retrieved through negotiation. They know also that it will be a matter of years before Western military purchases bring the military establishment up to strength again, and they are therefore generally satisfied with the Sinai agreement despite an awareness of its military disadvantages. The same is not true, however, of many younger officers.

These younger officers seem to have an exaggerated notion of Egypt's military capabilities, and they apparently believe that it might have gained more militarily. This feeling will be reinforced if the full extent of the agreement's limitations becomes known among lower levels of the officer corps. 25X1

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Discontent throughout the armed forces could be magnified if the virtual termination of Soviet military deliveries is not compensated for by a substantial influx of equipment from other sources. Sadat has frequently been subject to criticism from the Egyptian military for endangering Egypt's supply of Soviet equipment and, unless he can obtain a relatively steady flow of arms, he is likely to come under attack for seeming to condone US efforts to reinforce Israel's military superiority while allowing Egypt to lapse still deeper into military inferiority.

Sadat faces another internal danger because of the position in which the Sinai agreement has placed him with

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other Arabs. Although he is currently the object of approbation by Egyptians, who applaud his vehement responses to Arab criticism, these same Egyptians may eventually come to regret that Sadat has allowed Egypt's leadership of the Arab world to diminish as a result of the agreement.

By signing the Sinai agreement, Sadat has in fact let slip a part of his hold on the other Arabs. Although he does not himself regard the agreement as a final peace, the other Arabs are not so certain. They are no longer sure that Egypt will take a further part in the struggle for the return of the occupied territories and, although Egypt's "neutralization" has diminished their leverage with Israel, it has also given them some freedom to plan their moves without regard to Egypt's interests.

A feeling of dissatisfaction with this state of affairs is already apparent among leftists in Egypt, and Sadat could become much more vulnerable to charges of destroying a legacy of Arab leadership that President Nasir devoted his life to building up. Even those Egyptians who support Sadat may come to believe, through an emotional evocation of the "hero" Nasir, that things had somehow been better before Sadat came along.

Things were in fact better economically before Sadat came along, and his most difficult political challenge is currently the economic situation. While the Sinai agreement is welcomed for the economic benefits that are expected to flow from it, Sadat will be in trouble if the benefits are not soon evident to the man in the street, who is weary of standing in food lines, finding other essentials in short supply, and paying increasingly higher prices for what he can obtain. The government has raised expectations to an unrealistically high pitch, and it will be hard put to fulfill them. Legitimate economic grievances could provide leftist agitators with their most fertile ground for fomenting political protest.

Corruption and the widening disparity between the rich and the poor in Egypt are also a growing political issue and a source of increasing discontent. As food lines have lengthened at cooperative stores, as beggars have proliferated on Cairo's streets, and as the standard of living of the average Egyptian has noticeably dropped, corruption has

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ated a new class of conspicuously wealthy individuals are increasingly becoming a liability to a government promises to look out for the needs of the most lowly ptian.

We do not believe these myriad problems pose an nent danger for Sadat. Except for the economic situa-, these are potential problems rather than immediate es. Despite three wars and occasional societal up- als, moreover, the 21 years since the Nasir revolution brought a considerable measure of political order and staidness to Egypt hat militate against radical ge. Sadat nonetheless recognizes that he faces multiple lenges, and he will have his work cut out for him as he npts at once to ease economic burdens, to strengthen military, and to maintain his policy of gradual movement d a negotiated settlement with Israel.

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CONFIDENTIAL

OCI No. 0463/76
January 29, 1976

MEMORANDUM

SUBJECT: The Situation in Israel

As the Israelis see it, the three major issues they will have to deal with in 1976 are essentially the same ones they have confronted since the Arab-Israeli war of October 1973, namely:

-- negotiations with Egypt, Syria, and Jordan (the Palestinian issue, in the Israeli view, should be treated as part of negotiations with Jordan);

-- relations with the US; and

-- the state of the economy.

Almost all Israelis will agree that these issues are to a large extent interrelated, but there is no consensus on how to cope with them.

This lack of a national consensus is mirrored in the multi-party government Prime Minister Rabin was able to form only with great difficulty. Rabin's Labor Party is in alliance with smaller right and left wing parties, which have considerable political clout because of the coalition's slim majority in the Israeli parliament, the Knesset. The Labor Party itself has several factions, ranging from Defense Minister Peres' conservative Rafi faction to Foreign Minister Allon's left-leaning Achdut Avoda faction. The difficulty in arriving at a unified viewpoint is magnified by a prime minister who is by nature cautious, who is not given to making swift decisions or initiating radical changes, and who does not believe in quick and easy solutions.

The government's approach to the difficult issues confronting it has reflected this fragmentation, leaving it vulnerable to charges that it is indecisive, reacts rather than initiates, and lacks a plan for coping with

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Israel's problems. Many Israelis believe the country is simply drifting and at the mercy of currents determined by others. They yearn for another charismatic, colorful and decisive (some might call it opinionated) leader along the lines of a Bun-Gurion or even a Golda Meir. They hope such a leader would snap Israel out of its malaise and once again infuse it with a sense of real purpose--whatever the opposition from friend or foe.

The Israelis by and large acknowledge that there is no one on the horizon able to fill Ben-Gurion's shoes. They have reluctantly concluded that there is no real alternative to Rabin's leadership. Public opinion polls consistently put him at the top as the public's choice to lead the country, although Peres just as consistently receives higher marks for his performance as defense minister than does Rabin for his as prime minister.

Peres, in fact, remains Rabin's only real challenger for the top spot in Israel. Already the cabinet's most influential member next to Rabin, he does not conceal his ambition to be the next prime minister. Rabin only narrowly defeated Peres in the balloting almost two years ago for a successor to Golda Meir as Labor Party leader and thus head of the next government. Although he is trying, Peres has not yet been able to broaden his political base sufficiently to avoid being tagged as a spokesman only for the conservatives.

Rabin's view of the issues, economic or foreign, is shaped by his perception of Israel as a small country fighting more populous and wealthier Arab neighbors for the right to exist as a Jewish state in the ancestral homeland. He believes strongly in the proposition that only a militarily powerful Israel stands a chance of getting the Arabs to acknowledge this right. Rabin's long-term negotiating strategy toward the Arabs stresses that there is no realistic short cut to a final peace settlement acceptable to both Israel and the Arabs. It is a process that will take years, perhaps several decades. Therefore, he believes, Israel must play for time, yet show enough flexibility to keep the negotiations alive over the next six or seven years, at least. This would, he hopes, avoid war and allow the US and Western Europe to work free of their dependency on Arab oil, a dependency

that gives the Arabs the ability to pressure Israel for territorial concessions without having to make the political concessions Israel demands.

Rabin's strategy involves splitting Arab ranks by concluding separate agreements with Egypt, Syria, and Jordan. Time also would give Israel the opportunity to strengthen its military arm. Moreover, it would enable Rabin to postpone some critical decisions, such as withdrawals on the Golan Heights or on the West Bank, which are extremely sensitive domestic political issues. Any attempt on his part to force the issue could easily threaten the stability of his coalition and undermine his position as Labor Party leader. Rabin also seeks more time to press ahead with programs designed to make Israel more self-sufficient and especially to reduce its dependence on the US.

Rabin repeatedly emphasizes the centrality of Israel's relationship with the US and the great necessity to ensure broad US support. At the same time, he and most Israelis are uncomfortable with the country's growing dependence on US political, military, and economic support. There is a strong feeling in Israel that, in the long run, all this aid will eventually come out of Israel's hide in terms of large-scale territorial concessions to the Arabs in the negotiations.

The Rabin government has probably shown its greatest initiative in the economic sphere, trying to reverse Israel's economic slump with programs designed to improve its competitiveness on the world market and force Israelis to tighten their belts at home. But even here, the programs have often been introduced piecemeal, often exempting large segments of the population or important categories of items, greatly diluting their effect. Basically, however, the government's efforts--coupled with the improving world economy, large levels of US aid, and the support of world Jewry--have given Israel's economy a basically favorable outlook.

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MEMORANDUM

SUBJECT: Situation in the United Arab Emirates

The four-year-old United Arab Emirates (UAE) is a confederation of seven small city-states that are autonomous in such important areas as the use of oil revenues, defense, and internal security. The rulers of the sheikhdoms still regard each other with a good deal of suspicion and jealously guard their prerogatives against the encroachment of the central government. Economic and social forces are, nevertheless, slowly knitting the sheikhdoms together.

Much of the credit for the development of the UAE belongs to its president Sheikh Zayid, who is also the ruler of Abu Dhabi, the largest and by far the wealthiest of the sheikhdoms. Using a deft combination of consensus politics and timely handouts, Zayid has managed to maintain generally good relations with his squabbling fellow rulers. He has cautiously steered a middle course in both domestic and foreign affairs, thus reducing factionalism and eliminating issues his opponents might exploit. He has seen to it that certain traditional bedouin and Islamic features remain promiment, in order to reduce the impact of foreign workers inundating the country.

Though he tries to rule largely by consensus, Sheikh Zayid has taken care to make the Abu Dhabi Defense Force--responsible to him personally, not in his capacity as president of the UAE--the largest and best equipped military force. Zayid has promoted the unification of the UAE and local military and security forces, but his fellow rulers have thus far been able to stave off this development.

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The tension between central and local interests is likely to remain a permanent problem for the UAE. Zayid himself would have trouble holding to the larger view

if he were not president of the union, and it is not surprising that Zayid's major obstacle in establishing an effective central government is Sheikh Rashid, the ruler of Dubai, the second most important sheikhdom. Although Sheikh Rashid is the UAE's vice-president, he sees no reason to contribute to the strengthening of the central government to Zayid's benefit, and at his own expense. 25X6

The UAE in its first four years has sought to obtain recognition as a united entity, while avoiding any foreign antagonisms that could impair the knitting together of the sheikhdoms--a problem compounded somewhat by the existence of large foreign communities, including Palestinian, in the sheikhdoms, and the UAE's dependence on foreigners for many critical functions.

Although Zayid seems to be personally inclined to inject the UAE into Arab and international affairs, even if he has to use a major portion of Abu Dhabi's resources to do it, he is somewhat constrained by the other rulers who believe that his money, if not his time, would be better spent at home. He must also tread carefully so as not to step on the toes of Riyadh or Tehran, who expect him to follow their lead. The result has been a cautious, pragmatic, middle-of-the-road policy.

Zayid keeps his Arab credentials in good order, tries to avoid taking a position on intra-Arab differences, and is aloof on most east-west issues--but he is maintaining a society that is western-oriented and capitalistic. He has not, so far, permitted communist states to establish a presence in the UAE, although some of his advisers have been pushing for relations with the Soviet Union and Zayid may be giving some thought to this.

The UAE has consistently supported the traditional conservative regimes of the Arabian Peninsula. Zayid has given assistance to both Oman and North Yemen, mostly economic but including some discreet military assistance as well, largely to strengthen them against South Yemeni subversion. He worked hard to reach an agreement with Saudi Arabia on a border dispute that had poisoned relations between the two countries for years. He accepts Iran's role in the area as a fact of life and is not too concerned by the Shah's claim to have primary responsibility for security in the Gulf. 25X6

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US-UAE relations are basically good. The UAE values US technological strength; Americans are personally popular there. But Zayid is sensitive to the ups and downs of the Arab-Israeli situation; Abu Dhabi was the first Arab state to announce an embargo against the US during the October 1973 war. Zayid has since probably come to a greater appreciation of the complexity of the problem and US negotiating efforts. He knows that renewed war would disrupt the UAE's ties with the west and possibly extend radical interests in the Gulf. He nevertheless is also subjected to the arguments of those who oppose a negotiated settlement and would like to see US efforts fail.

Oil policy is an additional area of difference. Following the quadrupling of oil prices, the speculation in the US media about the possibility of US action against Gulf oil fields caused feeling against the US to run fairly high. With the world-wide economic slump since, however, the UAE seems to have come to a better realization that oil decisions cannot be taken in isolation of world economic conditions.

Regardless of the outcome of Middle East peace negotiations, the UAE will be careful to balance US interests there with those of other friendly industrial powers--the UK, France, eventually perhaps Japan. Should the Arab-Israeli situation deteriorate sharply, of course, US commercial interests would suffer.